

**Whitmore Lake Public Schools  
Whitmore Lake, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2007**

Whitmore Lake Public Schools

Whitmore Lake, Michigan

BOARD OF EDUCATION

June 30, 2007

James Vibbart

President

John Mayleben

Vice-President

Susan Booth

Secretary

Lynn Slagle

Treasurer

Anne Iaquinto

Trustee

Jane Usitalo

Trustee

Glen Ewald

Trustee

\*\*\*\*\*

Scott Menzel

Superintendent

Carmen Jaroslowski

Business Manager

Whitmore Lake Public Schools

TABLE OF CONTENTS

June 30, 2007

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-xi
BASIC FINANCIAL STATEMENTS	
District-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Governmental Funds Balance Sheet	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	5
Reconciliation of the Change in Fund Balances of Governmental Funds to the Statement of Activities	6
Fiduciary Fund:	
Statement of Fiduciary Net Assets	7
Notes to Basic Financial Statements	8-23
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	24
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Revenues and Other Financing Sources - Budget and Actual - General Fund	25
Schedule of Expenditures and Other Financing Uses - Budget and Actual - General Fund	26-27
Combining Balance Sheet - Nonmajor Governmental Funds	28-29
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	30-31
Schedule of Revenues, Expenditures and Changes in Fund Balance - Community Recreation Fund	32
Schedule of Bonded Debt Outstanding	33-35
OTHER FINANCIAL INFORMATION	
INDEPENDENT AUDITOR'S REPORT	36
Balance Sheet - 2003 Bond Activity	37
Statement of Revenues, Expenditures and Changes in Fund Balance - 2003 Bond Activity	38
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	39-41

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

745 Barclay Circle, Suite 335  
Rochester Hills, MI 48307  
(248) 844-2550  
FAX: (248) 844-2551

INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Whitmore Lake Public Schools  
Whitmore Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Whitmore Lake Public Schools as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Whitmore Lake Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Whitmore Lake Public Schools as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2007 on our consideration of Whitmore Lake Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control and financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Whitmore Lake Public Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 28, 2007

This section of Whitmore Lake Public Schools' annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Whitmore Lake Public Schools, a K-12 school district located in Washtenaw County, Michigan, is in its fifth year of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Whitmore Lake Public Schools' Management's discussion and analysis of the financial results for the fiscal year ended June 30, 2007.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Whitmore Lake Public Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and Capital Projects Fund individually, and the Special Revenue Funds and Debt Service Funds collectively as other non-major governmental funds. The remaining statement, the Statement of Fiduciary Net Assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

### **District-wide Financial Statements**

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, child care, recreation and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The District-wide financial statements are full accrual basis statements. They report all the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-wide financial statements.

**Fund Financial Statements**

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds and the Special Revenue (School Service) Funds which are comprised of: Food Service, Athletics, and Community Recreation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

**Summary of Net Assets:**

The following summarizes the net assets as of June 30, 2007 and 2006:

Condensed Statement of Net Assets  
as of June 30, 2007 and 2006

	Governmental Activities 2007	Governmental Activities 2006
<b>Assets</b>		
Current Assets	\$ 3,198,996	\$ 3,554,671
Noncurrent Assets	1,978,811	10,574,790
Capital Assets	<u>46,394,225</u>	<u>48,331,245</u>
<b>Total Assets</b>	<b>51,572,032</b>	<b>62,460,706</b>
<b>Liabilities</b>		
Current Liabilities	3,925,036	4,520,816
Noncurrent Liabilities	<u>58,350,645</u>	<u>58,320,052</u>
<b>Total Liabilities</b>	<b>62,275,681</b>	<b>62,840,868</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	(11,112,199 )	( 1,787,541 )
Unrestricted	<u>408,550</u>	<u>1,407,379</u>
<b>Total Net Assets</b>	<b><u>\$(10,703,649 )</u></b>	<b><u>\$( 380,162 )</u></b>

**Analysis of Financial Position:**

The \$408,550 in unrestricted net assets of governmental activities represents district funds that have not been committed contractually or for debt obligations and are available for future use. As detailed above, the District shows a negative total net asset value of \$10,703,649 for the fiscal year ended June 30, 2007. This statement can be explained by the following factors:

- Major construction projects became necessary to expand facilities to meet the needs of students. Construction of new facilities and major modifications to other facilities began in 2003 and continued through the 2006-2007 year. Some of the capital expenses do not meet the capitalization threshold which results in a reduction in total net assets.
- Significant debt, (\$47.75 million) was incurred by the district in 2003 to pay for the facility projects.

**Results of Operations:**

For the fiscal years ended June 30, 2007 and 2006, the District-wide results of operations were:

Condensed Statement of Activities  
Years Ended June 30, 2007 and 2006

	Governmental Activities 2007	Governmental Activities 2006
<b>Revenues:</b>		
Program Revenues		
Charges for Service	\$ 607,417	\$ 502,926
Operating Grants	1,544,204	1,475,926
General Revenues		
Property Taxes	5,032,806	4,812,642
State School Aid-unrestricted	6,958,896	6,809,964
Other	<u>1,284,919</u>	<u>1,617,584</u>
<b>Total Revenues</b>	<b>15,428,242</b>	<b>15,219,042</b>
<b>Functions/Program Expenses:</b>		
Instruction	7,225,278	6,931,509
Supporting services	5,620,865	4,635,743
Community services	384,051	318,947
Food service	540,258	450,438
Athletics	205,736	192,027
Interest on long-term debt	2,570,324	2,515,255
Unallocated depreciation	1,306,756	333,791
Other	<u>52,178</u>	<u>50,229</u>
<b>Total Expenses</b>	<b><u>17,905,446</u></b>	<b><u>15,427,939</u></b>
<b>(Decrease) in Net Assets</b>	<b><u><u>\$ ( 2,477,204 )</u></u></b>	<b><u><u>\$ ( 208,897 )</u></u></b>



**Analysis of Results of Operations:**

During fiscal year ended June 30, 2007, the District's net assets decreased by \$2,477,204. Several factors which helped cause the decrease are discussed in the following sections.

**A. Governmental Fund Operating Results**

The District's expenditures and other financing uses from governmental fund operations exceeded revenues and other financing sources by \$8,774,357 for the fiscal year ended June 30, 2007. Further discussion of the district's operating results is available in the section entitled "Results of 2006-2007 Operations" located on the following page.

**B. Capital Outlay in Excess of Depreciation Expense**

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2006-2007, the District's investment in new or replacement assets exceeded the current year depreciation, causing an increase in net district assets. The District's overall net assets were increased by \$5,909,263 calculated as the difference between new capital investments \$7,389,288 and depreciation allocated against the useful lives of district assets (\$1,480,025).

**C. Long-Term Debt Activities**

The District increased its long-term debt obligations during 2006-2007 by making principal payments amounting to \$1,680,000; issuing new debt in principal amount of \$8,695,000 to advance refund the amount of \$8,050,000; borrowing \$1,330,353 from the Michigan School Bond Loan Fund (principal and interest); increase in deferred charges and amortization of deferred charges decreased liability by \$413,424; reduction in accrued interest cost of \$17,483 on outstanding debt was incurred by the District during the fiscal year; increase in bond discount and amortization of premium/discount/ costs reduced liability by \$175,744. Also, compensated absences decreased by \$6,542, and the early retirement incentive liability decreased by \$70,002. As a result of these activities, net district long-term debt liabilities decreased by \$387,842.

**Results of 2006-2007 Operations**

During fiscal year ended June 30, 2007, the District net assets decreased by \$2,477,704. A few additional significant factors affecting net assets during the year are discussed below:

**A. General Fund Operations**

The General Fund is the main fund for the District and includes all the costs related to educating the students of the Whitmore Lake Public Schools such as: Salaries and benefits for Teachers, Classroom Aides, Administrators, Secretaries, Custodians, Maintenance staff, Noon Aides, Librarians, Counselors, Bus Drivers and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's General Fund expenditures exceeded revenues by \$756,913 for the fiscal year ended June 30, 2007. The General Fund as of June 30, 2007, has a fund balance of \$628,731 or 5% of expenditures for the 2006-2007 fiscal year. The School District made budget reductions in certain areas for the 2006-2007 fiscal year and most likely will have to continue these reductions for 2007-08 unless funding from the State of Michigan improves.

**B. Debt Service Fund Operations**

The Debt Service Funds consist of seven (7) separate debt funds as follows: 2002 Debt, 2003 Debt, 2004 Debt, 2005 Debt, 2006 Debt and Durant Debt. The Debt Service Funds are set up to collect taxes (or State Aid payments for Durant Debt) and pay annual debt payments. At June 30, 2007, the Debt Service Funds had \$249,233 in fund equity available for future bond payments.

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007

The School District levies taxes to make debt payment obligations. If taxes levied are not sufficient the School District will borrow funds from the Michigan School Bond Loan Fund. Any funds borrowed from the Michigan School Bond Loan Fund will be paid back toward the end of the bond obligations. During this year the District borrowed \$1,330,353 (principal and accrued interest) from the Michigan School Bond Loan Fund. The District also issued \$8,695,000 in Refunding Bonds during this past year to advance refund \$8,050,000 of the 2003 bonds. The District also had compensated absences and early retirement incentives outstanding at June 30, 2006 which totaled \$137,176 and \$157,998, respectively.

The District made principal payments on bonded, long-term debt obligations that reduced the amount of the District's long-term liabilities as follows:

	Principal Balance <u>June 30, 2006</u>	Principal Payments	Principal Balance <u>June 30, 2007</u>
Durant Bonds	\$ 146,474	\$ -	\$ 146,474
2002 Bonds	3,490,000	470,000	3,020,000
2003 Bonds	37,975,000	9,025,000	28,950,000
2004 Bonds	4,885,000	235,000	4,650,000
2005 Bonds	8,795,000	-	8,795,000
2006 Bonds	<u>-</u>	<u>-</u>	<u>8,695,000</u>
Total long-term bond obligations	<u><b>\$ 55,291,474</b></u>	<u><b>\$ 9,730,000</b></u>	<u><b>\$ 54,256,474</b></u>

### C. School Service Funds

The Whitmore Lake Public Schools also has school service funds that include the following: Food Service Fund, Athletic Fund, and the Community Recreation Fund.

The Food Service Fund is a fund that reports the food service program. In 2006-2007 the Food Service Fund had revenues of \$540,556 and expenditures of \$540,258. The Food Service Fund is self-supporting and reimburses the General Fund for all identified overhead costs associated with its operation. The Food Service Fund had a fund balance of \$42,480.

The Athletics Fund includes all costs for High School athletic programs including the cost for coaches, officials, supplies, tournaments, transportation and other. In 2006-2007 the Athletics Fund had revenues and expenditures of \$205,736. The Athletics Fund must be a balanced budget and the District contributed \$157,355 from the General Fund to balance the fund. The Athletics Fund generated \$48,381 in revenue from gate receipts, passes, fees, donations, and other items. The Athletics Fund had no fund balance.

The Community Recreation Fund includes enrichment programs and also community recreation activities funded by a special tax millage. In 2006-2007 the Community Recreation Fund had revenues of \$425,674 and expenditures of \$384,051. The Community Recreation Fund is self-supporting as a whole; however the enrichment programs component is currently not self-supporting and is supported by the community recreation component excess revenues. The Community Recreation Fund has a fund balance of \$173,862.

**D. Net Investment in Capital Assets**

The District's net investment in capital assets increased by \$5,909,263 during the fiscal year. This can be summarized as follows:

	<u>Restated Balance June 30, 2006</u>	<u>Additions</u>	<u>Balance June 30, 2007</u>
Capital assets	\$ 46,556,419	\$ 7,249,682	\$ 53,806,101
Less: accumulated depreciation	( 6,071,457 )	( 1,340,419 )	( 7,411,876 )
Net investment in capital outlay	<u>\$ 40,484,962</u>	<u>\$ 5,909,263</u>	<u>\$ 46,394,225</u>

In 1996, Whitmore Lake Public Schools voters approved a \$7,500,000 general obligation bond issue. In 2003, another general obligation bond issue totaling \$47,750,000 was approved. The proceeds from these bond issues were used for constructing new facilities and additions and partial remodeling of existing school facilities, and equipping and re-equipping facilities. The 1996 capital project was completed in a prior year, and the 2003 capital project was considered substantially complete as of June 30, 2007.

**IMPORTANT ECONOMIC FACTORS****1. State of Michigan Unrestricted Aid (Net State Foundation Grant)**

The State of Michigan aid, unrestricted, is determined with the following variables:

- State of Michigan State Aid Act per student foundation allowance
- Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- The District's non-homestead property valuation

**Per Student, Foundation Allowance:**

Annually, the State of Michigan establishes the per student foundation allowance. The Whitmore Lake Public Schools foundation allowance was \$7,085 per student for the 2006-2007 school year.

**Student Enrollment:**

The District's student enrollment for the fall count of 2006-2007 was 1,289 students. The District's enrollment decreased from the prior school year's student count. The following summarizes fall student enrollments in the past five years:

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2006-2007	1,289	(17)
2005-2006	1,306	13
2004-2005	1,293	27
2003-2005	1,266	13
2002-2003	1,253	3

Subsequent to year end June 30, 2007, preliminary student enrollments for 2007-2008 indicate that enrollments may decrease by about 29 students from 2006-2007.

**2. Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)**

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue for 2006-2007 fiscal year was \$2,193,525. The non-homestead tax levy increased by 1.03% over the prior year.

**3. Debt Fund Property Taxes**

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2006-2007 the District's debt millage levy was 7.25 mills that generated revenue of \$2,558,335.

**4. Community Recreation Fund Property Taxes**

The voters of Whitmore Lake Public Schools approved a recreation millage to fund the operations of the new pool facility and also other community recreation activities. The District's recreation levy, which is used to pay the operating costs related to community recreation activities, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2006-2007 the District recreation millage levy was .6047 mills that generated revenue of \$213,383.

**GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**

Listed below is an analysis of the original budget and final budget to the final actual.

**General Fund Expenditures and Other Uses Budget vs. Actual**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual &amp; Original Budget</u>	<u>Actual &amp; Final Budget</u>
2006-2007	\$12,263,681	\$12,556,568	\$12,332,019	(.56%)	1.79%

**General Fund Revenues and Other Sources, Budget vs. Actual**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual &amp; Original Budget</u>	<u>Actual &amp; Final Budget</u>
2006-2007	\$11,564,874	\$11,725,386	\$11,575,106	.09%	(1.28%)

**Original vs. Final Budget:**

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Whitmore Lake Public Schools amends its budget periodically during the school year. The June 2007 budget amendment was the final budget for the fiscal year.

**Revenue Change from Original to Final Budget:**

		<u>Percent</u>
Total Revenues Original Budget	\$ 11,564,874	100.00
Total Revenues Final Budget	<u>11,725,386</u>	<u>101.4</u>
Increase in Budget Revenues	<u>\$ 160,512</u>	<u>1.4</u>

The District's final actual General Fund revenues differed from the final budget by \$150,280, a negative variance of 1.3% from the final budget.

The final revenue budget reflects the following changes from the Original Budget.

- State unrestricted sources were increased by approximately \$83,000 mainly due to an increase in the projected student counts and also an equity payment.
- Federal revenues were increased by approximately \$32,000 mainly due to receipt of a Head Start supplemental grant.
- Increase of approximately \$15,000 in Special Education funding from Washtenaw Intermediate School District.

**General Fund Expenditures:**

The District's budget for expenditures changed as follows during the year:

		<u>Percent</u>
Total Expenditures Original Budget	\$ 12,263,681	100.00
Total Expenditures Final Budget	<u>12,556,568</u>	<u>102.4</u>
Increase in Budget Expenditures	<u>\$ 292,887</u>	<u>2.4</u>

The final expenditure budget reflects the following changes from the Original Budget.

- Instruction - Basic programs was increased by approximately \$190,000 mainly due to settlement of teacher contracts.
- Supporting services - Instructional Staff was increased by approximately \$28,000 mainly due to reclassification of certain costs from other functions.

The District's actual expenditures were less than final budget by \$224,549; a positive variance of 1.8% from the final budget.

**Additional Economic Factors and Next Year's Budgets and Rates**

Our elected officials and administration considered many factors when setting the School District's 2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008 fiscal year is 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The 2008 fiscal year budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 80 percent to 85 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2007-2008 school year, we anticipated that the fall student count will be relatively flat with the estimates used in creating the 2008 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

In fiscal year 2007, the health and pension charge to employers in the District's retirement plan had been 17.74 percent of payroll, which was comprised of 6.55 percent for health and 11.19 percent for pension. The contribution rate for fiscal year 2008 is set at 16.72 percent of payroll, which is comprised of 6.55 percent for health and 10.17 percent for pension.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, it can be obtained by contacting the following person:

Carmen M. Jaroslowski  
Business Manager  
Whitmore Lake Public Schools  
8845 Main Street  
Whitmore Lake, MI 48189  
Phone: (734) 449-4464, Fax: (734) 449-5336  
Or E-Mail: [Carmen.jaroslowski@wlps.net](mailto:Carmen.jaroslowski@wlps.net)

## **BASIC FINANCIAL STATEMENTS**

Whitmore Lake Public Schools

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 1,075,617
Accounts receivable	121,653
Accrued interest receivable	10,650
Due from other governmental units	1,930,429
Inventories and prepaids	<u>60,647</u>
Total current assets	3,198,996
Noncurrent assets	
Investments	604,644
Deferred charges	1,374,167
Capital assets, net of accumulated depreciation	<u>46,394,225</u>
Total noncurrent assets	<u>48,373,036</u>
TOTAL ASSETS	51,572,032
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	276,970
Salaries payable	866,569
Note payable	165,579
Accrued interest payable	390,582
Other accrued expenditures	428,199
Bonds and other obligations, due within one year	1,705,000
Deferred revenue	<u>92,137</u>
Total current liabilities	3,925,036
Noncurrent liabilities	
Bonds payable, due in more than one year, net of premium/discount	58,055,471
Early retirement incentive, due in more than one year	157,998
Compensated absences, due in more than one year	<u>137,176</u>
Total noncurrent liabilities	<u>58,350,645</u>
TOTAL LIABILITIES	<u>62,275,681</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	(11,112,199)
Unrestricted	<u>408,550</u>
TOTAL NET ASSETS	<u><u>\$ (10,703,649)</u></u>

See accompanying notes to financial statements.



Whitmore Lake Public Schools

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants	Revenues and Changes in Net Assets
				Governmental Activities
Governmental activities				
Instruction	\$ 7,225,278	\$ 63,645	\$ 1,339,898	\$ (5,821,735)
Supporting services	5,620,865	-	-	(5,620,865)
Food Service	540,258	336,250	204,306	298
Athletics	205,736	48,381	-	(157,355)
Community services	384,051	159,141	-	(224,910)
Other	52,178	-	-	(52,178)
Interest on long-term debt	2,570,324	-	-	(2,570,324)
Unallocated depreciation	1,306,756	-	-	(1,306,756)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 17,905,446</b>	<b>\$ 607,417</b>	<b>\$ 1,544,204</b>	<b>(15,753,825)</b>
General revenues				
Property taxes, levied for general purposes				2,200,959
Property taxes, levied for debt services				2,617,086
Property taxes, levied for special purposes				214,761
State school aid - unrestricted				6,958,896
Special Education county allocation				876,971
Interest and investment earnings				277,520
Other				130,428
<b>TOTAL GENERAL REVENUES</b>				<b>13,276,621</b>
<b>CHANGE IN NET ASSETS</b>				<b>(2,477,204)</b>
Net assets, beginning of year				(380,162)
Prior period adjustment				(7,846,283)
Net assets, end of year				<b>\$ (10,703,649)</b>

See accompanying notes to financial statements.

## Whitmore Lake Public Schools

## GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 315,145	\$ 485,057	\$ 275,415	\$ 1,075,617
Investments	75,443	529,201	-	604,644
Accounts receivable	117,151	-	4,502	121,653
Accrued interest receivable	-	10,650	-	10,650
Due from other governmental units	1,758,546	-	171,883	1,930,429
Due from other funds	11,917	-	18,866	30,783
Prepaid expenditures	29,320	-	-	29,320
Inventories	-	-	31,327	31,327
<b>TOTAL ASSETS</b>	<b>\$ 2,307,522</b>	<b>\$ 1,024,908</b>	<b>\$ 501,993</b>	<b>\$ 3,834,423</b>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 130,638	\$ 145,028	1,304	\$ 276,970
Due to other funds	-	-	30,783	30,783
Notes payable	165,579	-	-	165,579
Salaries payable	862,238	-	4,331	866,569
Other accrued expenditures	428,199	-	-	428,199
Deferred revenue	92,137	-	-	92,137
<b>TOTAL LIABILITIES</b>	<b>1,678,791</b>	<b>145,028</b>	<b>36,418</b>	<b>1,860,237</b>
<b>FUND BALANCE</b>				
Reserved for				
Debt service	-	-	249,233	249,233
Inventory and prepaids	29,320	-	31,327	60,647
Compensated absences	75,443	-	-	75,443
Unreserved				
Designated for special purposes	278,640	-	-	278,640
Undesignated, reported in				
General fund	245,328	-	-	245,328
Special revenue funds	-	-	185,015	185,015
Capital projects fund	-	879,880	-	879,880
<b>TOTAL FUND BALANCE</b>	<b>628,731</b>	<b>879,880</b>	<b>465,575</b>	<b>1,974,186</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 2,307,522</b>	<b>\$ 1,024,908</b>	<b>\$ 501,993</b>	<b>\$ 3,834,423</b>

See accompanying notes to financial statements.

Whitmore Lake Public Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH  
THE STATEMENT OF NET ASSETS

June 30, 2007

**Total fund balance - governmental funds** \$ 1,974,186

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 53,806,101	
Accumulated depreciation is	<u>(7,411,876)</u>	
		46,394,225

Long-term liabilities are not due and payable in the current period  
and therefore are not reported as liabilities in the governmental funds.  
Long-term liabilities at year-end consist of:

Bonds payable	(59,046,565)	
Compensated absences	(137,176)	
Early retirement	(157,998)	
Accrued interest payable	<u>(390,582)</u>	
		(59,732,321)

Unamortized premium (net of discount) received on sale of bonds, bond issuance  
costs, and payment to escrow agent representing future interest on defeased bonds  
are not fully amortized in the current period and therefore are not reported as an unamortized  
liability in the governmental funds.

Unamortized payment to escrow agent for future interest	994,750	
Unamortized bond issuance costs	379,417	
Unamortized bond premium/discount	<u>(713,906)</u>	
		660,261

**Net assets of governmental activities** \$ (10,703,649)

See accompanying notes to financial statements.

## Whitmore Lake Public Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

Year Ended June 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES				
Local sources	\$ 2,381,815	\$ 221,439	\$ 3,428,083	\$ 6,031,337
State sources	7,687,343	-	13,611	7,700,954
Federal sources	554,994	-	190,695	745,689
OTHER FINANCING SOURCES				
County special education taxes	876,971	-	-	876,971
Payments from other governments	58,983	-	-	58,983
Other transactions	15,000	-	-	15,000
Proceeds from bonds	-	-	9,827,951	9,827,951
Operating transfers in	-	-	157,355	157,355
TOTAL REVENUES AND OTHER FINANCING SOURCES	11,575,106	221,439	13,617,695	25,414,240
EXPENDITURES				
Current				
Instruction	6,753,822	-	-	6,753,822
Supporting services	5,319,121	-	-	5,319,121
Athletics	-	-	205,736	205,736
Food service	-	-	540,258	540,258
Community service	-	-	384,051	384,051
Capital outlay	-	7,932,289	-	7,932,289
Debt service	-	-	4,096,327	4,096,327
Other	-	2,918	87,345	90,263
OTHER FINANCING USES				
Operating transfers out	157,355	-	-	157,355
Discount/premium on bond issuance	-	-	150,048	150,048
Payment to refunding bond escrow agent	-	-	8,457,606	8,457,606
Other transactions	101,721	-	-	101,721
TOTAL EXPENDITURES AND OTHER FINANCING USES	12,332,019	7,935,207	13,921,371	34,188,597
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(756,913)	(7,713,768)	(303,676)	(8,774,357)
Fund balances, beginning of year	1,417,910	8,593,648	769,251	10,780,809
Prior period adjustment	(32,266)	-	-	(32,266)
Fund balances, end of year	\$ 628,731	\$ 879,880	\$ 465,575	\$ 1,974,186

See accompanying notes to financial statements.

Whitmore Lake Public Schools

RECONCILIATION OF THE CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

June 30, 2007

**Net change in fund balances - total governmental funds** **\$ (8,774,357)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense	\$ (1,480,025)	
Capital outlay	<u>7,389,288</u>	
Excess of capital outlay over depreciation expense		5,909,263

Repayment and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayments reduce long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	9,730,000	
Bond proceeds	<u>(9,828,129)</u>	
Excess of bond proceeds over principal retirement		(98,129)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in deferred charges	462,684	
Increase in bond discount	150,048	
Decrease in compensated absences	6,542	
Decrease in early retirement liability	70,002	
Amortization of deferred charges	(49,260)	
Amortization of bond premium/discount	25,744	
Increase in interest accrued on school bond loan funds	(197,224)	
Decrease in accrued interest payable on long-term debt	<u>17,483</u>	<u>486,019</u>

**Change in net assets of governmental activities** **\$ (2,477,204)**

See accompanying notes to financial statements.

Whitmore Lake Public Schools

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	Agency Fund
ASSETS	
Cash	<u>\$ 125,506</u>
LIABILITIES	
Due to student groups	<u>\$ 125,506</u>

See accompanying notes to financial statements.

Whitmore Lake Public Schools

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Whitmore Lake Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

**1. Reporting Entity**

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Whitmore Lake Public Schools (primary government). The District has no activities that would be classified as component units.

**2. Basis of Presentation**

**DISTRICT-WIDE FINANCIAL STATEMENTS**

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

**FUND FINANCIAL STATEMENTS**

The governmental fund financial statements present the District's individual major fund and aggregated nonmajor funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

The major funds of the District are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.
- b. Capital Projects Fund - The Capital Projects Fund is used to account for money or other resources provided to the District through a 2003 bond issuance for the purpose of developing, constructing, furnishing and equipping a new high school building and also making improvements to other school facilities.

Additionally, the government reports the following fund types:

- c. Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. Special Revenue Funds maintained by the District are the Athletic Fund, Food Services Fund and Community Services Fund.
- d. Debt Funds - Debt Funds are used to record tax, interest, and other revenue for payment of principal and other expenditures and the disbursements thereof on a particular bond issue. The District maintains the 2002, 2003, 2004, 2005 and 2006 Debt Funds and the Durant Debt Fund.
- e. Fiduciary Funds - Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held in trust for the student and parents.

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.



NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

3. Basis of Accounting - continued

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue funds. All unexpended appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted at the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
- f. The budget, as presented, has been amended in a legally permissible manner. Two (2) Supplementary appropriations were made during the year with the final amendments being approved June 11, 2007.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of checking and savings accounts, pooled investment accounts, and short-term investments with an original maturity of 90 days or less. Cash equivalents are recorded at cost, which approximates market value.

Investments consist of U.S. government securities with an original maturity of greater than 90 days, and also a group annuity contract funding reserves for compensated absences. Investments are recorded at market value.

6. Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**7. Inventories**

Inventories are stated at cost on a first in/first out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. The Food Services Fund inventory consists of food and paper goods.

**8. Due from Other Governmental Units**

Due from other governmental units consists of various amounts owed to the District for grant programs, State Aid payments and other purposes. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2007 to be paid in July and August 2007. Of the total amount of \$1,930,429 due from other governmental units, \$1,265,717 consists of State Aid and the remaining \$664,712 from other governmental grants and County delinquent tax payments.

**9. Capital Assets**

Capital assets include land, buildings and improvements, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	20 - 50 years
Buses and other vehicles	5 - 10 years
Furniture and other equipment	5 - 20 years

The District has no assets that would be classified as infrastructure assets.

**10. Compensated Absences**

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

**11. Accrued Interest Payable**

Accrued interest is presented for long-term obligations in the district-wide statements related to interest payable on general obligation bonds.

**12. Long-term Obligations**

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

12. Long-term Obligations - continued

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums and discounts on debt issuances are netted and are reported as either other financing sources or other financing uses. Issuance costs are reported as debt service expenditures.

13. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on the lien date of December 1 and are due by February 28 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

The District levies taxes of \$18 per \$1000 of taxable valuation on nonhomestead property for general governmental services, \$7.25 per \$1000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service, and \$.6047 per \$1000 of taxable valuation on the total applicable taxable valuation of all property within the District for recreation.

14. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state wide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on the average of pupil membership counts taken in February 2006 and September 2006. The average calculation was weighted 25% for the February 2006 count and 75% for the September 2006 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

15. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

16. Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers. Transfers are netted as part of the reconciliation to the district-wide financial statements.

17. Federal Programs

Federal programs are accounted for in the General Fund and specific Special Revenue Funds. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

18. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or national bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, the carrying amount of the District's deposits was \$382,444 and the bank balance was \$415,780, of which \$159,389 was covered by federal depository insurance. The balance of \$256,391 was uninsured and uncollateralized.

Investments

As of June 30, 2007, the carrying amounts and market values for each type of investment as reported in the cash and cash equivalents captions on the governmental funds balance sheet are as follows:

<u>Investment Type</u>	<u>Carrying Amount/ Market Value</u>	<u>Weighted Average Maturity</u>
Insured or registered for which the securities are held by the District's agent in the District's name - U.S. Government Agency Securities	\$ 529,201	5.5 months
Uncategorized - Pooled investment funds		
Dreyfus - Cash Management Fund	426,201	< 12 months
National City - Cash Management Fund	125,020	< 12 months
Comerica - School Cash Investment Fund	267,458	< 12 months
Mid America - Employee Benefit Trust Fund	<u>75,443</u>	< 12 months
	<u>\$ 1,423,323</u>	

The U.S. Government Agency Securities are not insured but are backed by the full faith and credit of the Federal Government and/or its Agencies. The pooled investment funds are not categorized at a risk level because they are not evidenced by securities that exist in physical or book entry form.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2007, the District's investments in the uncategorized pooled investments were rated AAA by Standard and Poor's.

Interest rate risk

The District has adopted a policy that indicates how the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**Concentration of credit risk

The District has adopted a policy that indicates how the District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District has adopted a policy that indicates how the District will minimize custodial risk, which is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments of collateral securities that are in possession of an outside party. The District's policy limits the types of investments and depositories to those complying with State statute, and also requires prequalification of financial institutions, brokers/dealers, intermediaries and advisors.

As of June 30, 2007, the cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and cash equivalents	\$ 1,075,617	\$ 125,506	\$ 1,201,123
Investments	<u>604,644</u>	<u>-</u>	<u>604,644</u>
	<u>\$ 1,680,261</u>	<u>\$ 125,506</u>	<u>\$ 1,805,767</u>

**NOTE C: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Restated Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Governmental activities				
Land	\$ 1,218,065	\$ -	\$ -	\$ 1,218,065
Buildings and improvements	11,061,187	39,325,921	-	50,387,108
Buses and other vehicles	805,053	68,217	139,606	733,664
Furniture and equipment	850,627	616,637	-	1,467,264
Construction in progress	<u>32,621,487</u>	<u>6,704,434</u>	<u>39,325,921</u>	<u>-</u>
Totals at historical cost	46,556,419	46,715,209	39,465,527	53,806,101
Less accumulated depreciation for:				
Buildings and improvements	( 4,992,805 )	( 1,306,756 )	-	( 6,299,561 )
Buses and other vehicles	( 475,318 )	( 73,684 )	139,606	( 409,396 )
Furniture and equipment	<u>( 603,334 )</u>	<u>( 99,585 )</u>	<u>-</u>	<u>( 702,919 )</u>
Total accumulated depreciation	<u>( 6,071,457 )</u>	<u>( 1,480,025 )</u>	<u>139,606</u>	<u>( 7,411,876 )</u>
Capital assets, net	<u>\$ 40,484,962</u>	<u>\$ 45,235,184</u>	<u>\$ 39,605,133</u>	<u>\$ 46,394,225</u>

Whitmore Lake Public Schools

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

**NOTE C: CAPITAL ASSETS - CONTINUED**

Depreciation expense was allocated to governmental functions (except for building depreciation). The following details the allocation of depreciation expense.

Instruction	\$ 99,585
Supporting services	73,684
Unallocated	<u>1,306,756</u>
	<u>\$ 1,480,025</u>

**NOTE D: SHORT-TERM NOTES**

On August 18, 2006, the District issued a short-term State School Aid Anticipation Note in the amount of \$1,265,000 for the purpose of funding operating expenditures until the 2007 State Aid payments resumed. This short-term note, which has a net outstanding balance of \$165,579 at June 30, 2007, is reported in the fund-level and district-wide financial statements under the caption short-term notes payable. The June 30, 2007 outstanding balance will be paid off on August 20, 2007.

**NOTE E: LONG-TERM DEBT**

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2007.

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amounts Due within One Year
2002 Bonds	\$ 3,490,000	\$ -	\$ 470,000	\$ 3,020,000	\$ 450,000
2003 Bonds	37,975,000	-	9,025,000	28,950,000	1,025,000
2004 Bonds	4,885,000	-	235,000	4,650,000	230,000
2005 Bonds	8,795,000	-	-	8,795,000	-
2006 Bonds	-	8,695,000	-	8,695,000	-
Durant Non-Plaintiff Bonds	146,474	-	-	146,474	-
Michigan School Bond Loans - Principal and Interest	3,459,738	1,330,353	-	4,790,091	-
Early Retirement Incentive	228,000	-	70,002	157,998	-
Compensated Absences	<u>143,718</u>	<u>-</u>	<u>6,542</u>	<u>137,176</u>	<u>-</u>
	<u>\$59,122,930</u>	<u>\$10,025,353</u>	<u>\$ 9,806,544</u>	<u>\$59,341,739</u>	<u>\$ 1,705,000</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

**General Obligation**

\$5,550,000 Refunding Bonds dated March 27, 2002, due in annual installments of \$415,000 to \$450,000 through May 1, 2014; interest at 4.0% to 4.50%, payable semi-annually. \$ 3,020,000

\$47,750,000 School Building and Site Bonds dated August 7, 2003, due in annual installments of \$1,000,000 to \$1,600,000 through May 1, 2033; interest at 2.75% to 5.25%, payable semi-annually. 28,950,000

Whitmore Lake Public Schools

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

**NOTE E: LONG-TERM DEBT - CONTINUED**

General Obligation - continued

\$4,955,000 Refunding Bonds dated December 14, 2004, due in annual installments of \$215,000 to \$270,000 through May 1, 2026; interest at 2.76% to 4.60%, payable semi-annually.	\$ 4,650,000
\$8,795,000 Refunding Bonds dated December 29, 2005, due in annual installments of \$0 to \$1,970,000 through May 1, 2024; interest at 4.0% to 4.10%, payable semi-annually.	8,795,000
8,695,000 Refunding Bonds dated November 3, 2006, due in annual installments of \$0 to \$2,225,000 through May 1, 2028; interest at 4.0%, payable semi-annually.	<u>8,695,000</u>
Subtotal	54,110,000

Resolution Bonds

\$248,067 1998 Durant Non-Plaintiff serial bonds, due in annual installments of \$14,462 to \$84,362 through May 15, 2013; interest at 4.762%. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan.	<u>146,474</u>
Total bonded debt	<u>\$54,256,474</u>

Michigan School Bond Loans

The District has borrowed on various occasions from the Michigan School Bond Loan Fund. Repayment is due when the District has funds available as determined by the State of Michigan. Interest accrues on the unpaid balance. During the year the interest ranged from 3.125 to 4.82 percent.

Loan balance	\$ 4,475,285
Interest balance	<u>314,806</u>
	<u>\$ 4,790,091</u>

Advance Refunding - Current

On November 3, 2006, the District defeased the portion of the 2003 Building and Site Bonds, which are due and payable May 1, 2025 through May 1, 2028. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government securities sufficient to meet the applicable principal and interest obligations. The funds maintained in the trust will be used to pay the bonds all outstanding bonds when they are callable on May 1, 2013. The District issued General Obligation 2006 Refunding Bonds in the amount of \$8,695,000 to fund escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. The economic loss resulting from this transaction, which is the present value of the annual increase in principal and interest payments, calculated to be \$110,590. At June 30, 2007, bonds due and payable May 1, 2025 through May 1, 2028 for the 2003 Building and Site Bonds in the amount of \$8,050,000 are considered defeased.



Whitmore Lake Public Schools

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

**NOTE E: LONG-TERM DEBT - CONTINUED**

Advance Refunding - Prior

On December 29, 2005, the District defeased the portion of the 2003 Building and Site Bonds, which are due and payable May 1, 2021 through May 1, 2024. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government securities sufficient to meet the applicable principal and interest obligations. The funds maintained in the trust will be used to pay the bonds all outstanding bonds when they are callable on May 1, 2013. The District issued General Obligation 2005 Refunding Bonds in the amount of \$8,795,000 and also used \$125,000 from the debt service fund to fund escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2007, bonds due and payable May 1, 2021 through May 1, 2024 for the 2003 Building and Site Bonds in the amount of \$8,125,000 are considered defeased.

Compensated Absences

In recognition of services to the District, payment for unused accumulated sick leave balances is made to eligible employees at termination of employment according to their respective employment contracts. Under GASB Statement No. 16, the District has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The liability for compensated absences reported in the district-wide statements totaled \$137,176 as of June 30, 2007.

Early Retirement Incentive

As an incentive for certain eligible teaching staff to take early retirement, the District offered an early retirement incentive which consists of three (3) annual payments with the first payment due July 1 of the year following retirement. The liability for early retirement payments related to subsequent year's payments for teaching staff that have retired as of June 30, 2007 was \$157,998.

The annual requirements to pay the debt principal and interest outstanding for the long-term debt are as follows.

	<u>Durant Resolution Bonds</u>	<u>General Obligation Bonds</u>	<u>Totals</u>
2008	\$ -	\$ 4,048,493	\$ 4,048,493
2009	117,043	4,030,980	4,148,023
2010	17,420	3,987,881	4,005,301
2011	17,420	3,987,005	4,004,425
2012	17,419	3,957,202	3,974,621
2013-2017	17,419	18,493,690	18,511,109
2018-2022	-	17,348,310	17,348,310
2023-2027	-	16,494,068	16,494,068
2028-2032	-	13,945,710	13,945,710
2033	-	2,537,762	2,537,762
	186,721	88,831,101	89,017,822
Less: interest	( 40,247 )	( 34,721,101 )	( 34,761,348 )
	<u>\$ 146,474</u>	<u>\$ 54,110,000</u>	<u>\$ 54,256,474</u>

It is not possible to project a payment schedule for the Michigan School Bond Loans due to varying interest rates and timing of repayments. As a result, it is not included in the schedule above.

Whitmore Lake Public Schools

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

**NOTE F: INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables at June 30, 2007, are as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
General Fund		
Community Recreation	\$ 11,917	\$ -
Special Revenue Funds		
Community Recreation		
General Fund	-	11,917
Debt Service Funds		
2002 Debt Fund		
2003 Debt Fund	-	17,689
2003 Debt Fund		
2004 Debt Fund	1,177	-
2002 Debt Fund	17,689	-
2004 Debt Fund		
2003 Debt Fund	-	1,177
	<u>-</u>	<u>-</u>
	18,866	18,866
Capital Projects Fund		
General Fund	<u>-</u>	<u>-</u>
	<u>\$ 30,783</u>	<u>\$ 30,783</u>

**NOTE G: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to nonmajor governmental funds are as follows:

General fund	
Transfer to Special Revenue Funds	
Athletics Fund	\$ 157,356

**NOTE H: EMPLOYEE RETIREMENT SYSTEM**

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2006, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2007, was \$7,258,333; the District's total payroll was \$7,557,360.

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

**NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

For the period of July 1, 2006 to September 30, 2006, the District was required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. For the period October 1, 2006 to June 30, 2007, the District was required by State statute to contribute 17.74% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2007, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>	<u>Total Contributions</u>
2007	\$ 226,201	\$ 1,263,930	\$ 1,490,131
2006	209,583	1,103,623	1,313,206
2005	205,995	989,598	1,195,593

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>
2007	3.0-4.3 %	17.41 %
2006	3.0-4.3	15.94
2005	3.0-4.3	14.40

Whitmore Lake Public Schools

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

**NOTE I: FUND BALANCE RESERVES AND DESIGNATIONS**

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the District has set aside for specific purposes.

The following are the fund balance reserves as of June 30, 2007:

General Fund	
Reserved for compensated absences	\$ 75,443
Reserved for prepaid expenditures	<u>29,320</u>
	69,648
Special Revenue Fund	
Food Service	
Reserved for inventories	31,327
Debt Service Funds	
Reserved for debt service	<u>249,233</u>
	<u>\$ 350,208</u>

The following are the fund balance designations as of June 30, 2007:

General Fund	
Designated for special purposes	
Curriculum	\$ 105,212
Early retirement liability	157,998
Capital expenditures	<u>15,430</u>
	<u>\$ 278,640</u>

**NOTE J: RISK MANAGEMENT**

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for boiler, property, fleet, liability, in-land marine, crime, data processing, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. The District has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The District has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

Whitmore Lake Public Schools

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

**NOTE K: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT**

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. Whitmore Lake Public Schools, a nonplaintiff District, was awarded \$496,134 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year, not all of these funds had been expended. The unexpended amounts have been recorded as deferred revenue and will be recognized as revenue when expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

**NOTE L: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the body of the required supplementary financial statements, the District's budgeted expenditures in the General Fund have been adopted and reported at the functional classification level.

During the year ended June 30, 2007, the District incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
School Administration	\$ 676,582	\$ 685,606	\$( 9,024 )
Other	12,659	18,940	( 6,281 )
Other transactions	98,589	101,721	( 3,132 )

**NOTE M: BONDED CONSTRUCTION FUNDS**

The Capital Project Fund of the District includes the capital projects activities funded by the 2003 School Building and Site General Obligation Bonds, and also other local dollars (i.e., interest, etc.) For this project recorded within the Capital Project Fund, the District has complied with the applicable provisions of Section 1351 (1) of the Revised School Code in prior and current years. The following is a summary of the revenues and expenditures in the Capital Projects Fund from the inception of the fund as it relates to the bond issue through the current fiscal year. These amounts relate to cumulative project-to-date revenues/expenditures through the period ended June 30, 2007.

	<u>2003 Capital Project</u>
Revenues	<u>\$ 50,079,532</u>
Expenditures	<u>\$ 49,199,652</u>

Whitmore Lake Public Schools

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

**NOTE M: BONDED CONSTRUCTION FUNDS - CONTINUED**

Beginning with the year of bond issuance, the District has reported the annual 2003 bond capital project related construction activity in the Capital Projects Fund. The project for which the \$47,750,000 2003 School Building and Site Bonds dated August 7, 2003 was issued were considered complete on June 30, 2007 and the cumulative expenditures recognized for the construction period were \$49,199,652 as of that date.

**NOTE N: CONTRACT COMMITMENTS**

The District has entered into various contracts related to the construction and remodeling of various school building projects that were not completed at June 30, 2007. The total contractual commitment outstanding at June 30, 2007 was \$40,734. The District's remaining bond proceeds (i.e., fund balance) are expected to be sufficient to cover these commitments.

**NOTE O: SUBSEQUENT EVENTS**

After the year ended June 30, 2007, the following significant event occurred:

In August 2007, the District received funds from the Michigan Municipal Bond Authority short-term cash flow borrowing program. The loan totaled \$1,800,000 and future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

**NOTE P: PRIOR PERIOD ADJUSTMENTS**

The following prior period adjustments were made during the year, which was the result of the correction of accounting errors. These adjustments were reported as changes to beginning fund balance. The effect on operations and other affected balances for the current and prior year is as follows:

<u>Fund Level</u>	<u>2007</u>	<u>2006</u>	<u>Description</u>
GENERAL FUND			
Deferred revenue	\$ -	\$ 32,266	Correction of accounting errors
Revenues over (under) expenses	-	-	
Fund balance - beginning	( 32,266 )	( 32,266 )	
<u>Government-Wide</u>			
GOVERNMENTAL ACTIVITIES			
Capital assets, net of accumulated depreciation	( 7,846,283 )	( 7,846,283 )	Correction of prior years capital asset activity
Change in net assets	-	-	
Net assets - beginning	( 7,846,283 )	( 7,846,283 )	

## **REQUIRED SUPPLEMENTARY INFORMATION**

Whitmore Lake Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Local sources	\$ 2,401,490	\$ 2,419,387	\$ 2,381,815	\$ (37,572)
State sources	7,727,885	7,800,508	7,687,343	(113,165)
Federal sources	558,814	590,571	554,994	(35,577)
OTHER FINANCING SOURCES				
County special education taxes	853,178	867,700	876,971	9,271
Payments from other governments	15,462	32,220	58,983	26,763
Other transactions	8,045	15,000	15,000	-
TOTAL REVENUES AND OTHER FINANCING SOURCES	11,564,874	11,725,386	11,575,106	(150,280)
EXPENDITURES				
INSTRUCTION				
Basic programs	5,627,523	5,818,500	5,743,902	74,598
Added needs	1,026,350	1,026,787	1,009,920	16,867
SUPPORTING SERVICES				
Student services	1,352,587	1,375,389	1,366,879	8,510
Instructional staff	357,487	395,600	393,200	2,400
General administration	359,053	363,044	347,018	16,026
School administration	648,691	676,582	685,606	(9,024)
Business	302,908	322,379	303,131	19,248
Operations and maintenance	1,414,885	1,432,473	1,411,576	20,897
Transportation	667,880	641,053	632,404	8,649
Central services	212,149	233,633	160,367	73,266
Other	4,330	12,659	18,940	(6,281)
Total expenditures	11,973,843	12,298,099	12,072,943	225,156
OTHER FINANCING USES				
Other transactions	120,589	98,589	101,721	(3,132)
Operating transfers out	169,249	159,880	157,355	2,525
TOTAL EXPENDITURES AND OTHER FINANCING USES	12,263,681	12,556,568	12,332,019	224,549
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(698,807)	(831,182)	(756,913)	74,269
Fund balance, beginning of year	727,038	1,418,390	1,417,910	(480)
Prior period adjustment	-	-	(32,266)	(32,266)
Fund balance, end of year	\$ 28,231	\$ 587,208	\$ 628,731	\$ 41,523



## **OTHER SUPPLEMENTARY INFORMATION**

## Whitmore Lake Public Schools

## General Fund

## SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL

Year Ended June 30, 2007

	Final Budget	Actual	Variance Favorable (Unfavorable)
LOCAL SOURCES			
Taxes	\$ 2,226,529	\$ 2,200,959	\$ (25,570)
Earnings on investments and deposits	45,491	49,387	3,896
Tuition	32,358	39,657	7,299
Other	115,009	91,812	(23,197)
TOTAL LOCAL SOURCES	2,419,387	2,381,815	(37,572)
STATE SOURCES			
Unrestricted	6,947,792	6,944,123	(3,669)
Restricted	852,716	743,220	(109,496)
TOTAL STATE SOURCES	7,800,508	7,687,343	(113,165)
FEDERAL SOURCES			
Restricted - received through State	98,054	77,447	(20,607)
Restricted - received through I.S.D.	492,517	477,547	(14,970)
TOTAL FEDERAL SOURCES	590,571	554,994	(35,577)
OTHER FINANCING SOURCES			
County special education taxes	867,700	876,971	9,271
Payments from other governments	32,220	58,983	26,763
Other	15,000	15,000	-0-
TOTAL OTHER FINANCING SOURCES	914,920	950,954	36,034
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 11,725,386</u>	<u>\$ 11,575,106</u>	<u>\$ (150,280)</u>

## Whitmore Lake Public Schools

## General Fund

## SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGET AND ACTUAL

Year Ended June 30, 2006

	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>INSTRUCTION</b>			
Basic programs			
Preschool	\$ 235,220	\$ 282,965	\$ (47,745)
Elementary	2,229,754	2,215,966	13,788
Middle school	1,733,288	1,700,710	32,578
High school	1,620,238	1,544,261	75,977
Total basic programs	5,818,500	5,743,902	74,598
Added needs			
Special education	767,251	768,196	(945)
Compensatory education	160,585	139,446	21,139
Vocational education	98,951	102,278	(3,327)
Total added needs	1,026,787	1,009,920	16,867
<b>TOTAL INSTRUCTION</b>	<b>6,845,287</b>	<b>6,753,822</b>	<b>91,465</b>
<b>SUPPORTING SERVICES</b>			
Student services			
Guidance Services	270,382	266,347	4,035
Health Services	77,237	71,018	6,219
Psychological Services	61,484	67,203	(5,719)
Speech	219,844	221,367	(1,523)
Social Worker	231,071	228,235	2,836
Teacher Consultant	507,485	505,149	2,336
Homebound	7,886	7,560	326
Total student services	1,375,389	1,366,879	8,510
Instructional Staff			
Improvement of instruction	106,719	95,728	10,991
Special education	73,101	77,631	(4,530)
Library	215,780	219,841	(4,061)
Total instructional staff	395,600	393,200	2,400
General Administration			
Board of education	92,948	82,078	10,870
Executive administration	270,096	264,940	5,156
Total general administration	363,044	347,018	16,026
School Administration			
Office of the principal	676,582	685,606	(9,024)

Whitmore Lake Public Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2006

	Final Budget	Actual	Variance Favorable (Unfavorable)
SUPPORTING SERVICES - CONTINUED			
Business services			
Fiscal services	\$ 227,857	\$ 230,432	\$ (2,575)
Other business services	94,522	72,699	21,823
Total business services	322,379	303,131	19,248
Operation and maintenance	1,432,473	1,411,576	20,897
Central Services			
Staff/personnel services	41,635	37,639	3,996
Information management services	191,998	122,728	69,270
Total central services	233,633	160,367	73,266
Transportation services	641,053	632,404	8,649
Other	12,659	18,940	(6,281)
TOTAL SUPPORTING SERVICES	5,452,812	5,319,121	133,691
OTHER FINANCING USES			
Other transactions	98,589	101,721	(3,132)
Transfers to other funds	159,880	157,355	2,525
TOTAL OTHER FINANCING USES	258,469	259,076	(607)
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 12,556,568</u>	<u>\$ 12,332,019</u>	<u>\$ 224,549</u>

Whitmore Lake Public Schools

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2007

	Special Revenue Funds		
	Athletics	Food Service	Community Recreation
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 7,955	\$ 176,911
Accounts receivable		4,502	-
Due from other funds	-	-	-
Due from other governmental units	-	-	13,199
Inventory	-	31,327	-
<b>TOTAL ASSETS</b>	<u>\$ -0-</u>	<u>\$ 43,784</u>	<u>\$ 190,110</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Salaries payable	\$ -	\$ -	\$ 4,331
Accounts payable	-	1,304	-
Due to other funds	-	-	11,917
<b>TOTAL LIABILITIES</b>	-0-	1,304	16,248
<b>FUND BALANCES</b>			
Reserved for			
Inventory	-	31,327	-
Debt service	-	-	-
Unreserved			
Undesignated, reported in			
Food service fund	-	11,153	-
Community education fund	-	-	173,862
<b>TOTAL FUND BALANCES</b>	-0-	42,480	173,862
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ -0-</u>	<u>\$ 43,784</u>	<u>\$ 190,110</u>

Debt Service Funds

Durant Debt Fund	2002 Debt Fund	2003 Debt Fund	2004 Debt Fund	2005 Debt Fund	2006 Debt Fund	Total
\$ -	\$ 17,454	\$ 56,517	\$ 10,860	\$ 5,443	\$ 275	\$ 275,415
-	-	18,866	-	-	-	4,502
-	27,797	104,622	16,416	9,849	-	18,866
-	-	-	-	-	-	171,883
						31,327
<u>\$ -0-</u>	<u>\$ 45,251</u>	<u>\$ 180,005</u>	<u>\$ 27,276</u>	<u>\$ 15,292</u>	<u>\$ 275</u>	<u>\$ 501,993</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,331
-	-	-	-	-	-	1,304
-	17,689	-	1,177	-	-	30,783
-0-	17,689	-0-	1,177	-0-	-0-	36,418
-	-	-	-	-	-	31,327
-	27,562	180,005	26,099	15,292	275	249,233
-	-	-	-	-	-	11,153
-	-	-	-	-	-	173,862
-0-	27,562	180,005	26,099	15,292	275	465,575
<u>\$ -0-</u>	<u>\$ 45,251</u>	<u>\$ 180,005</u>	<u>\$ 27,276</u>	<u>\$ 15,292</u>	<u>\$ 275</u>	<u>\$ 501,993</u>

## Whitmore Lake Public Schools

## Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES

For the year ended June 30, 2007

	Special Revenue Funds		
	Athletics	Food Service	Community Recreation
REVENUES			
Local sources	\$ 48,381	\$ 336,250	\$ 425,674
State sources	-	13,611	-
Federal sources	-	190,695	-
OTHER FINANCING SOURCES			
Proceeds of bonds	-	-	-
Operating transfers in	157,355	-	-
TOTAL REVENUES AND OTHER FINANCING SOURCES	205,736	540,556	425,674
EXPENDITURES			
Current			
Athletics	205,736	-	-
Food service	-	540,258	-
Community education	-	-	384,051
Other	-	-	-
Debt service	-	-	-
OTHER FINANCING USES			
Discount/premium on bond issuance	-	-	-
Payment to refunding bond escrow agent	-	-	-
TOTAL EXPENDITURES	205,736	540,258	384,051
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	-	298	41,623
Fund balances, beginning of year	-	42,182	132,239
Fund balances, end of year	\$ -0-	\$ 42,480	\$ 173,862

Debt Service Funds

Durant Debt Fund	2002 Debt Fund	2003 Debt Fund	2004 Debt Fund	2005 Debt Fund	2006 Debt	Total
\$ -	\$ 462,827	\$ 1,715,698	\$ 275,034	\$ 164,193	\$ 26	\$ 3,428,083
-	-	-	-	-	-	13,611
-	-	-	-	-	-	190,695
-	34,955	9,583,564	17,555	19,660	172,217	9,827,951
-	-	-	-	-	-	157,355
-0-	497,782	11,299,262	292,589	183,853	172,243	13,617,695
-	-	-	-	-	-	205,736
-	-	-	-	-	-	540,258
-	-	-	-	-	-	384,051
-	-	87,345	-	-	-	87,345
-	614,800	2,527,738	426,033	355,788	171,968	4,096,327
-	-	150,048	-	-	-	150,048
-	-	8,457,606	-	-	-	8,457,606
-0-	614,800	11,222,737	426,033	355,788	171,968	13,921,371
-	(117,018)	76,525	(133,444)	(171,935)	275	(303,676)
-	144,580	103,480	159,543	187,227	-	769,251
<u>\$ -0-</u>	<u>\$ 27,562</u>	<u>\$ 180,005</u>	<u>\$ 26,099</u>	<u>\$ 15,292</u>	<u>\$ 275</u>	<u>\$ 465,575</u>



Whitmore Lake Public Schools

Community Recreation Fund

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the year ended June 30, 2007

REVENUES AND OTHER FINANCING SOURCES

REVENUES

Local sources

Taxes	\$ 214,761
Tuition	133,023
Facility rental	26,118
Pool	45,077
Interest	<u>6,695</u>

TOTAL REVENUES	425,674
----------------	---------

EXPENDITURES

Community Education

Salaries	121,559
Employee benefits	42,384
Purchased services	2,234
Supplies and materials	<u>12,802</u>

Recreation

Salaries	67,651
Employee benefits	14,993
Purchased services	<u>122,428</u>

TOTAL EXPENDITURES	<u>384,051</u>
--------------------	----------------

EXCESS OF REVENUES  
OVER EXPENDITURES

41,623

Fund balance, beginning of year

132,239

Fund balance, end of year

\$ 173,862

Whitmore Lake Public Schools

SCHEDULE OF BONDED DEBT OUTSTANDING

June 30, 2007

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
<b>GENERAL OBLIGATION BONDS</b>				
1998 Durant Resolution Bonds				
Dated November 15, 1998				
5/15/2008	4.762	\$ -	\$ -	\$ -0-
5/15/2009	4.762	32,681	84,362	117,043
5/15/2010	4.762	2,958	14,462	17,420
5/15/2011	4.762	2,269	15,151	17,420
5/15/2012	4.762	1,547	15,872	17,419
5/15/2013	4.762	792	16,627	17,419
<b>TOTAL 1998 DURANT RESOLUTION BONDS</b>		<b>40,247</b>	<b>146,474</b>	<b>186,721</b>
2002 Refunding Bonds				
Dated March 27, 2002				
5/1/2008	4.000	125,750	450,000	575,750
5/1/2009	4.000	107,750	440,000	547,750
5/1/2010	4.000	90,150	425,000	515,150
5/1/2011	4.100	73,150	440,000	513,150
5/1/2012	4.200	55,110	430,000	485,110
5/1/2013	4.375	37,050	420,000	457,050
5/1/2014	4.500	18,675	415,000	433,675
<b>TOTAL 2002 REFUNDING BONDS</b>		<b>507,635</b>	<b>3,020,000</b>	<b>3,527,635</b>
2003 School Building and Site Bonds				
Dated August 7, 2003				
5/1/2008	2.750	1,329,325	1,025,000	2,354,325
5/1/2009	5.000	1,301,137	1,075,000	2,376,137
5/1/2010	3.250	1,247,388	1,125,000	2,372,388
5/1/2011	3.750	1,210,825	1,175,000	2,385,825
5/1/2012	4.000	1,166,762	1,225,000	2,391,762
5/1/2013	4.000	1,117,762	1,275,000	2,392,762
5/1/2014	4.000	1,066,763	1,325,000	2,391,763
5/1/2015	4.000	1,013,763	1,375,000	2,388,763
5/1/2016	4.000	958,763	1,425,000	2,383,763
5/1/2017	5.250	901,762	1,475,000	2,376,762
5/1/2018	5.250	824,325	1,525,000	2,349,325

Whitmore Lake Public Schools

SCHEDULE OF BONDED DEBT OUTSTANDING - CONTINUED

June 30, 2007

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
<b>GENERAL OBLIGATION BONDS - CONTINUED</b>				
2003 School Building and Site Bonds - continued				
Dated August 7, 2003				
5/1/2019	5.250	\$ 744,263	\$ 1,600,000	\$ 2,344,263
5/1/2020	5.250	660,263	1,000,000	1,660,263
5/1/2021	5.250	607,763	-	607,763
5/1/2022	5.250	607,763	-	607,763
5/1/2023	5.250	607,763	-	607,763
5/1/2024	5.000	607,763	-	607,763
5/1/2025	5.000	607,763	-	607,763
5/1/2026	5.000	607,762	-	607,762
5/1/2027	5.000	607,762	-	607,762
5/1/2028	5.000	607,762	525,000	1,132,762
5/1/2029	5.000	581,512	2,275,000	2,856,512
5/1/2030	5.000	467,762	2,325,000	2,792,762
5/1/2031	5.000	351,512	2,375,000	2,726,512
5/1/2032	5.000	232,762	2,400,000	2,632,762
5/1/2033	4.650	112,762	2,425,000	2,537,762
TOTAL 2003 SCHOOL BUILDING AND SITE BONDS		20,151,512	28,950,000	49,101,512
2004 Refunding Bonds				
Dated December 14, 2004				
5/1/2008	2.750	184,933	230,000	414,933
5/1/2009	3.000	178,608	225,000	403,608
5/1/2010	3.250	171,858	225,000	396,858
5/1/2011	5.500	164,545	220,000	384,545
5/1/2012	3.750	156,845	220,000	376,845
5/1/2013	3.750	148,595	215,000	363,595
5/1/2014	4.000	140,533	215,000	355,533
5/1/2015	4.000	131,933	260,000	391,933
5/1/2016	4.000	121,533	260,000	381,533
5/1/2017	4.000	111,133	260,000	371,133
5/1/2018	4.000	100,733	255,000	355,733
5/1/2019	4.125	90,533	255,000	345,533
5/1/2020	4.250	80,014	250,000	330,014
5/1/2021	4.300	69,389	250,000	319,389
5/1/2022	4.375	58,639	245,000	303,639
5/1/2023	4.400	47,920	270,000	317,920
5/1/2024	4.500	36,040	265,000	301,040
5/1/2025	4.600	24,115	265,000	289,115
5/1/2026	4.500	11,925	265,000	276,925
TOTAL 2004 REFUNDING BONDS		2,029,824	4,650,000	6,679,824

## Whitmore Lake Public Schools

## SCHEDULE OF BONDED DEBT OUTSTANDING - CONTINUED

June 30, 2007

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
GENERAL OBLIGATION BONDS - CONTINUED				
2005 Refunding Bonds				
Dated December 29, 2005				
5/1/2008	n/a	\$ 355,685	\$ -	\$ 355,685
5/1/2009	n/a	355,685	-	355,685
5/1/2010	n/a	355,685	-	355,685
5/1/2011	n/a	355,685	-	355,685
5/1/2012	n/a	355,685	-	355,685
5/1/2013	n/a	355,685	-	355,685
5/1/2014	n/a	355,685	-	355,685
5/1/2015	4.000	355,685	100,000	455,685
5/1/2016	4.000	351,685	100,000	451,685
5/1/2017	4.000	347,685	100,000	447,685
5/1/2018	4.000	343,685	100,000	443,685
5/1/2019	4.000	339,685	100,000	439,685
5/1/2020	4.000	335,685	745,000	1,080,685
5/1/2021	4.000	305,885	1,805,000	2,110,885
5/1/2022	4.000	233,685	1,860,000	2,093,685
5/1/2023	4.100	159,285	1,915,000	2,074,285
5/1/2024	4.100	80,770	1,970,000	2,050,770
TOTAL 2005 REFUNDING BONDS		5,343,530	8,795,000	14,138,530
2006 Refunding Bonds				
Dated November 3, 2006				
5/1/2008	n/a	347,800	-	347,800
5/1/2009	n/a	347,800	-	347,800
5/1/2010	n/a	347,800	-	347,800
5/1/2011	n/a	347,800	-	347,800
5/1/2012	n/a	347,800	-	347,800
5/1/2013	n/a	347,800	-	347,800
5/1/2014	n/a	347,800	-	347,800
5/1/2015	n/a	347,800	-	347,800
5/1/2016	n/a	347,800	-	347,800
5/1/2017	n/a	347,800	-	347,800
5/1/2018	n/a	347,800	-	347,800
5/1/2019	n/a	347,800	-	347,800
5/1/2020	4.0000	347,800	60,000	407,800
5/1/2021	4.0000	345,400	80,000	425,400
5/1/2022	4.0000	342,200	85,000	427,200
5/1/2023	4.0000	338,800	90,000	428,800
5/1/2024	4.0000	335,200	90,000	425,200
5/1/2025	4.0000	331,600	2,135,000	2,466,600
5/1/2026	4.0000	246,200	2,195,000	2,441,200
5/1/2027	4.0000	158,400	2,225,000	2,383,400
5/1/2028	4.0000	69,400	1,735,000	1,804,400
TOTAL 2006 REFUNDING BONDS		6,688,600	8,695,000	15,383,600
TOTAL BONDED DEBT OUTSTANDING		\$ 34,761,348	\$ 54,256,474	\$ 89,017,822

## **OTHER FINANCIAL INFORMATION**

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

745 Barclay Circle, Suite 335  
Rochester Hills, MI 48307  
(248) 844-2550  
FAX: (248) 844-2551

INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Whitmore Lake Public Schools  
Whitmore Lake, Michigan

We have audited the accompanying balance sheet and statement of revenues, expenditures and changes in fund balance of the 2003 Bond Project Capital Projects Fund, which is the fund that reported the activity of the 2003 Bond activity of Whitmore Lake Public Schools as of and for the forty-six (46) month, twenty-four (24) day period ended June 30, 2007. These statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statements were prepared for the purpose of complying with the provisions of the Michigan Revised School Code (Public Act 451 of 1976, as amended), Part 17-Bonds and Notes, Section 380.1351 (a) as described in Note M. The presentation is not intended to be a presentation of the District's total revenues and expenditures.

In our opinion, the statements referred to above presents fairly, in all material respects, the financial position of the 2003 Bond Project Capital Projects Fund, which is the fund that reported the activity of the 2003 Bond activity of Whitmore Lake Public Schools as of and for the forty-six (46) month, twenty-four (24) day period ended June 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 28, 2007, on our consideration of Whitmore Lake Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 28, 2007

Whitmore Lake Public Schools

Capital Projects Fund

2003 Bond Project

BALANCE SHEET

June 30, 2007

ASSETS

Cash and cash equivalents	\$ 485,057
Investments	529,201
Accrued interest receivable	<u>10,650</u>

TOTAL ASSETS	<u><u>1,024,908</u></u>
--------------	-------------------------

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 145,028
------------------	------------

FUND BALANCE

Designated for capital projects	<u>879,880</u>
---------------------------------	----------------

TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 1,024,908</u></u>
------------------------------------	----------------------------

Whitmore Lake Public Schools

Capital Projects Fund

2003 Bond Project

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE

Forty-Six Month and Twenty-Four Day Period Ended June 30, 2007

REVENUES

LOCAL SOURCES

Interest and investment earnings	\$ 2,329,532
----------------------------------	--------------

OTHER FINANCING SOURCES

Bond proceeds	46,707,499
---------------	------------

Bond premium	<u>1,042,501</u>
--------------	------------------

TOTAL REVENUES AND OTHER FINANCING SOURCES	50,079,532
--	------------

EXPENDITURES

Capital outlay	48,913,449
----------------	------------

Other	<u>286,203</u>
-------	----------------

TOTAL EXPENDITURES	<u>49,199,652</u>
--------------------	-------------------

NET CHANGE IN FUND BALANCE	879,880
----------------------------	---------

Fund balance, beginning of period	<u>-</u>
-----------------------------------	----------

Fund balance, end of period	<u><u>\$ 879,880</u></u>
-----------------------------	--------------------------



Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

745 Barclay Circle, Suite 335  
Rochester Hills, MI 48307  
(248) 844-2550  
FAX: (248) 844-2551

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Whitmore Lake Public Schools  
Whitmore Lake, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Whitmore Lake Public Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated September 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Whitmore Lake Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

**2007-1 Preparation of Financial Statements in Accordance with GAAP**

Condition: As part of the audit process, the District, as well as most governments, has historically relied on the independent auditors to assist in the preparation of certain year-end adjusting entries and the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform these tasks internally. Under the new auditing standards this is now a control deficiency that the District does not have the technical expertise to prepare the audited financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

## **2007-1 Preparation of Financial Statements in Accordance with GAAP - continued**

**Criteria:** Governmental entities are required to issue financial statements that are prepared in accordance with GAAP. Responsibility for the financial statements rests with the District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

**Effect:** The District relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP. This reliance makes the independent auditors effectively part of the District's internal controls. By definition, independent auditors cannot be part of the District's internal controls.

**Recommendation:** We recommend the District consider providing applicable employees with training that would allow them to attain the qualifications required to be able to complete all necessary year-end adjusting entries and to fully understand the GAAP financial statement preparation process. Should the District choose not to address this issue, management and the Board should realize that an increased risk is present in not having the proper internal control over financial reporting.

**Corrective Action Response:** The Business Manager will attend the Michigan School Business Officials "Financial Statement Preparation Conference" in June 2008.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiency described above is not a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below.

## **2007-2 Unfavorable Budget Variances**

**Condition:** During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for some activities in the General Fund. The District's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated for these activities of the General Fund.

**Criteria:** The Uniform Budgeting and Accounting Act requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

**Effect:** The District is not in compliance with Public Act 621 of 1978, as amended.

**Recommendation:** We recommend the District monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

**Corrective Action Response:** The Business Manager will exercise caution when determining the amounts for year end appropriation amendments to help assure compliance with the State statute.

The District's responses to the findings identified in our audit are described above. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the administration, the Board of Education of Whitmore Lake Public Schools, others within the District, the pass-through entities, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 28, 2007

**Whitmore Lake Public Schools**

**SUPPLEMENTARY INFORMATION  
TO FINANCIAL STATEMENTS  
(FEDERAL AWARDS)**

**June 30, 2007**

Whitmore Lake Public Schools

TABLE OF CONTENTS

June 30, 2007

	<u>Page</u>
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	1-2
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	3-6
Notes to Schedule of Expenditures of Federal Awards	7
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	8-10
SCHEDULE OF FINDINGS	11-12
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	13

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

745 Barclay Circle, Suite 335  
Rochester Hills, MI 48307  
(248) 844-2550  
FAX: (248) 844-2551

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education  
Whitmore Lake Public Schools  
Whitmore Lake, Michigan

Compliance

We have audited the compliance of Whitmore Lake Public Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to the major Federal programs for the year ended June 30, 2007. The Whitmore Lake Public Schools' major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs are the responsibility of Whitmore Lake Public Schools' administration. Our responsibility is to express an opinion on Whitmore Lake Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major Federal programs occurred. An audit includes examining, on a test basis, evidence about Whitmore Lake Public Schools' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Whitmore Lake Public Schools' compliance with those requirements.

In our opinion, the Whitmore Lake Public Schools complied, in all material respects, with the requirements referred to above that are applicable to the major Federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The administration of Whitmore Lake Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Whitmore Lake Public Schools' internal control over compliance with requirements that could have a direct and material effect on the major Federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to the major Federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Whitmore Lake Public Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated September 28, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Whitmore Lake Public Schools' basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and administration of Whitmore Lake Public Schools, the pass-through grantors, and the U.S. Departments of Agriculture, Health and Human Services and Education and is not intended to be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 28, 2007

## Whitmore Lake Public Schools

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Year Ended June 30, 2007

<u>Federal Grantor/ Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Restated Program or Award Amount</u>	<u>(Memo Only) Restated Prior Years' Expenditures</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Passed Through State Department of Education				
E.S.E.A. Title I	84.010			
2006-07 Regular - Part A		0715300607	\$ 57,210	\$ -
Title V LEA Allocation	84.298			
2006-07		0702500607	266	-
Technology Literacy Challenge Grants	84.318			
2006-07 Ed Tech - Formula Grant		0742900607	587	-
Improving Teacher Quality	84.367			
2006-07 Regular		0705200607	29,081	-
Passed Through State Department of Education and Livingston Intermediate School District				
Drug-Free Schools Program	84.186			
2006-07		N/A	1,929	-
Passed Through State Department of Education and Washtenaw Intermediate School District				
Special Education IDEA	84.027A <sup>(e) (h)</sup>			
2005/2006 Carryover		N/A	5,121	-
2006/2007 Regular		N/A	296,707	-
2004/2005 Carryover		N/A	30,667	29,815
2005/2006 Regular		N/A	<u>249,413</u>	<u>245,828</u>
			581,908	275,643
Preschool	84.173A <sup>(e) (h)</sup>			
2006/2007 Regular		N/A	8,636	-
Early On Program	84.181A			
2006/2007 Regular		N/A	<u>19,368</u>	<u>-</u>
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<b>698,985</b>	<b>275,643</b>



<u>July 1, 2006</u>				<u>June 30, 2007</u>				<u>Balance</u>
<u>Restated</u>	<u>Restated</u>	<u>Cash</u>		<u>Accrued or</u>		<u>Revenue</u>	<u>Expenditures</u>	<u>June 30, 2007</u>
<u>Inventory/</u>	<u>Accrued or</u>	<u>Receipts/</u>		<u>(Deferred)</u>				<u>Inventory/</u>
<u>Cash or</u>	<u>(Deferred)</u>	<u>In-Kind</u>		<u>Revenue</u>				<u>Cash or</u>
<u>(Payables)</u>	<u>Revenue</u>	<u>Payments</u>						<u>(Payables)</u>
\$ -	\$ -	\$ 49,064	\$ -	\$ 49,064	\$ 49,064	\$ -0-		
-	-	266	-	266	266	-0-		
-	-	587	-	587	587	-0-		
-	-	27,530	-	27,530	27,530	-0-		
-	-	1,309	620	1,929	1,929	( 620 )		
-	-	5,121	-	5,121	5,121	-0-		
-	-	207,847	69,930	277,777	277,777	( 69,930 )		
( 16,185 )	16,185	16,185	-	-	-	-0-		
( 98,187 )	98,187	98,187	-	-	-	-0-		
( 114,372 )	114,372	327,340	69,930	282,898	282,898	( 69,930 )		
-	-	6,916	1,720	8,636	8,636	( 1,720 )		
-	-	17,296	2,072	19,368	19,368	( 2,072 )		
( 114,372 )	114,372	430,308	74,342	390,278	390,278	( 74,342 )		

Whitmore Lake Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For Year Ended June 30, 2007

<u>Federal Grantor/ Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Restated Program or Award Amount</u>	<u>(Memo Only) Restated Prior Years' Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed Through Washtenaw County				
Headstart Program	93.600			
2006/2007 Regular		N/A	\$ 137,481	\$ -
2006/2007 One Time Grant		N/A	<u>27,605</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			165,086	-0-
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through State Department of Education				
School Breakfast Program	10.553 <sup>(f)</sup>			
2006-07		71970	29,668	-
2005-06		61970	<u>28,305</u>	<u>25,441</u>
			57,973	25,441
National School Lunch Program				
2006-07	10.555 <sup>(f)</sup>	71950,71960	106,095	-
2005-06		61950,61960	<u>116,307</u>	<u>104,768</u>
			222,402	104,768
Food Donation				
Entitlement commodities	10.550	81140	27,987	-
Bonus commodities		81140	<u>172</u>	<u>-</u>
			28,159	-0-
Child Care Food Program				
2006-07	10.558	71920,72010	<u>12,365</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>320,899</u>	<u>130,209</u>
TOTAL FEDERAL AWARDS			<u>\$ 1,184,970</u>	<u>\$ 405,852</u>

<u>July 1, 2006</u>			<u>June 30, 2007</u>			<u>June 30, 2007</u>
<u>Restated Inventory/ Cash or (Payables)</u>	<u>Restated Accrued or (Deferred) Revenue</u>	<u>Cash Receipts/ In-Kind Payments</u>	<u>Accrued or (Deferred) Revenue</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Inventory/ Cash or (Payables)</u>
\$ -	\$ -	\$ 86,644	\$ 50,467	\$ 137,111	\$ 137,111	\$( 50,467 )
-	-	<u>27,605</u>	-	<u>27,605</u>	<u>27,605</u>	<u>-0-</u>
-0-	-0-	114,249	50,467	164,716	164,716	( 50,467 )
-	-	29,668	-	29,668	29,668	-0-
-	-	<u>2,864</u>	-	<u>2,864</u>	<u>2,864</u>	<u>-0-</u>
-0-	-0-	32,532	-0-	32,532	32,532	-0-
-	-	106,095	-	106,095	106,095	-0-
-	-	<u>11,539</u>	-	<u>11,539</u>	<u>11,539</u>	<u>-0-</u>
-0-	-0-	117,634	-0-	117,634	117,634	-0-
-	-	27,987	-	27,987 <sup>(a)</sup>	27,987 <sup>(c)</sup>	-0-
-	-	<u>172</u>	-	<u>172</u> <sup>(a)</sup>	<u>172</u> <sup>(c)</sup>	<u>-0-</u>
-0-	-0-	28,159	-0-	28,159	28,159	-0-
-	-	<u>12,365</u>	-	<u>12,365</u>	<u>12,365</u>	<u>-0-</u>
-0-	-0-	<u>190,690</u>	-0-	<u>190,690</u>	<u>190,690</u>	<u>-0-</u>
<u>\$( 114,372 )</u>	<u>\$ 114,372</u>	<u>\$ 735,247</u> <sup>(d)</sup>	<u>\$ 124,809</u>	<u>\$ 745,684</u> (h)	<u>\$ 745,684</u> <sup>(b)</sup>	<u>\$( 124,809 )</u>

Whitmore Lake Public Schools

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2007

**NOTE A: BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Whitmore Lake Public Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

**NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE**

The following descriptions identified below as (a) through (g) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The current year revenues for the Food Donation Program are determined based on the 2002/03 guidance provided previously from the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the current payment amounts in the Grants Section Auditor's Report and/or Grant Auditor Report.
- (e) Denotes programs tested as "major program".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.
- (g) Denotes programs required to be clustered by the United States Department of Education.
- (h) Agrees to total revenues from Federal sources per financial statements.

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

745 Barclay Circle, Suite 335  
Rochester Hills, MI 48307  
(248) 844-2550  
FAX: (248) 844-2551

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Whitmore Lake Public Schools  
Whitmore Lake, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Whitmore Lake Public Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated September 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Whitmore Lake Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

**2007-1 Preparation of Financial Statements in Accordance with GAAP**

Condition: As part of the audit process, the District, as well as most governments, has historically relied on the independent auditors to assist in the preparation of certain year-end adjusting entries and the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform these tasks internally. Under the new auditing standards this is now a control deficiency that the District does not have the technical expertise to prepare the audited financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

## **2007-1 Preparation of Financial Statements in Accordance with GAAP - continued**

**Criteria:** Governmental entities are required to issue financial statements that are prepared in accordance with GAAP. Responsibility for the financial statements rests with the District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

**Effect:** The District relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP. This reliance makes the independent auditors effectively part of the District's internal controls. By definition, independent auditors cannot be part of the District's internal controls.

**Recommendation:** We recommend the District consider providing applicable employees with training that would allow them to attain the qualifications required to be able to complete all necessary year-end adjusting entries and to fully understand the GAAP financial statement preparation process. Should the District choose not to address this issue, management and the Board should realize that an increased risk is present in not having the proper internal control over financial reporting.

**Corrective Action Response:** The Business Manager will attend the Michigan School Business Officials "Financial Statement Preparation Conference" in June 2008.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiency described above is not a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below.

## **2007-2 Unfavorable Budget Variances**

**Condition:** During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for some activities in the General Fund. The District's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated for these activities of the General Fund.

**Criteria:** The Uniform Budgeting and Accounting Act requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

**Effect:** The District is not in compliance with Public Act 621 of 1978, as amended.

**Recommendation:** We recommend the District monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

**Corrective Action Response:** The Business Manager will exercise caution when determining the amounts for year end appropriation amendments to help assure compliance with the State statute.

The District's responses to the findings identified in our audit are described above. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the administration, the Board of Education of Whitmore Lake Public Schools, others within the District, the pass-through entities, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 28, 2007

Whitmore Lake Public Schools

SCHEDULE OF FINDINGS

For the Year Ended June 30, 2007

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. There was one (1) significant deficiency disclosed by the audit of the basic financial statements. We noted one (1) instance of noncompliance with laws, regulations, contracts and grants that could have a direct and material effect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We did not disclose any findings regarding internal controls or compliance related to the major program tested.

The major program tested to cover 25 percent of the total Federal expenditures was the Special Education IDEA/Preschool program cluster (CFDA 84.027A and 84.173A). Total Federal expenditures for the year ended June 30, 2007 for the major programs tested were \$ 291,534, which is approximately 39 percent of total Federal expenditures. The District qualified as a low risk auditee.

The District had no Type A programs. Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Basic Financial Statements.

Finding #2007-1 Preparation of Financial Statements in Accordance with GAAP

Condition: As part of the audit process, the District, as well as most governments, has historically relied on the independent auditors to assist in the preparation of certain year-end adjusting entries and the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform these tasks internally. Under the new auditing standards this is now a control deficiency that the District does not have the technical expertise to prepare the audited financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Criteria: Governmental entities are required to issue financial statements that are prepared in accordance with GAAP. Responsibility for the financial statements rests with the District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

Effect: The District relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP. This reliance makes the independent auditors effectively part of the District's internal controls. By definition, independent auditors cannot be part of the District's internal controls.

Recommendation: We recommend the District consider providing applicable employees with training that would allow them to attain the qualifications required to be able to complete all necessary year-end adjusting entries and to fully understand the GAAP financial statement preparation process. Should the District choose not to address this issue, management and the Board should realize that an increased risk is present in not having the proper internal control over financial reporting.

Corrective Action Response: The Business Manager will attend the Michigan School Business Officials "Financial Statement Preparation Conference" in June 2008.



Whitmore Lake Public Schools  
SCHEDULE OF FINDINGS - CONTINUED  
For the Year Ended June 30, 2007

FINDINGS/NONCOMPLIANCE - CONTINUED

Findings Related to Compliance with Requirements Applicable to the Basic Financial Statements.

Finding #2007-2 Unfavorable Budget Variances

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for some activities in the General Fund. The District's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated for these activities of the General Fund.

Criteria: The Uniform Budgeting and Accounting Act requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Effect: The District is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the District monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: The Business Manager will exercise caution when determining the amounts for year end appropriation amendments to help assure compliance with the State statute.

Findings Related to Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.

NONE

Whitmore Lake Public Schools

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2007

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Basic Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Basic Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

Finding #2006-1 - Earmarking - Verification of Family Income

*Program:* Headstart (CFDA 93.600)

*Condition:* During our testing of the District procedures for determining and verifying the low-income status of student families for a sample of ten (10) student files, we noted one (1) instance where the determination of low-income status was incorrect (i.e., counted unborn child as part of family size - would be over income limit if not counted). We noted another instance where the documentation to support either being a recipient of public assistance or explanation of how supported if no reportable family income was not on file.

*Criteria:* The Headstart program regulations require that at least 90 percent of the enrollees come from families whose income is below the official Federal poverty guidelines or who are receiving public assistance (income eligible). The family income must be verified by the Head Start grantee before determining that a child is income-eligible. Verification must include examination of any of the following: Individual Income Tax Form 1040, W-2 forms, pay stubs, pay envelopes, written statements from employers, or documentation showing current status as recipients of public assistance.

*Effect:* Because the District has not adequately supported the eligibility for the students identified above, the District may not have met the requirement that at least 90 percent of the enrollees come from families whose income is below the official Federal poverty guidelines or who are receiving public assistance (income eligible).

*Recommendation:* We recommend the District review and revise procedures related to the determination and verification of the low-income status of student families to assure that the eligibility of all applicable students is appropriately documented.

*Response:* The District indicated that for the first instance noted above the Family Service Worker who enrolled the family stated that she was told by the Head Start grantee that she could count the unborn child as part of the family. In this instance, the family was only over-income for one month until the child's birth. The District also indicated that the files had been audited by the Head Start grantee.

The District indicated that for the 2006/2007 year both the Family Service Worker and the Early Childhood Coordinator reviewed the income and all forms related to the income verification. There will also be a Head Start grantee monitoring performed by the Service Managers that will also verify all incomes. Income will be closely audited and monitored as new families are enrolled.

*Current Status:* The District indicated that the Head Start grantee monitoring of the 2006/2007 year noted no issues related to this area.